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## **SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

### **EXAMINATION REPORT FOR DOCKET NO. 2000-366-A**

#### **THE APPLICATION OF CHEM-NUCLEAR SYSTEMS, LLC, A SUBSIDIARY OF ENERGY SOLUTIONS, FOR ADJUSTMENT IN THE LEVELS OF ALLOWABLE COSTS AND FOR IDENTIFICATION OF ALLOWABLE COSTS**

On September 30, 2008, Chem-Nuclear Systems, LLC ("Chem-Nuclear") filed an application for Adjustment in the Levels of Allowable Costs for the Fiscal Year Ending June 30, 2008 and for Identification of Allowable Costs for Fiscal Year Ending June 30, 2009, pursuant to South Carolina Public Service Commission ("PSC") Order No. 2008-447 in Docket No. 2000-366-A. The South Carolina Office of Regulatory Staff ("ORS") completed an examination of the application and the underlying financial records of Chem-Nuclear for the operation of its regional low-level radioactive waste disposal facility located in the vicinity of Barnwell, South Carolina.


Effective July 1, 2008, Pursuant to S.C. Code Ann. § 48-46-40-(A)(6)(a), (Supp. 2008), Chem-Nuclear can only accept waste generated within the three Atlantic Compact states, South Carolina, New Jersey and Connecticut. Additionally, starting July 1, 2008, Chem-Nuclear commenced site closure ("institutional") activities parallel to its site disposal operating ("operational") activities. The institutional costs include site maintenance, monitoring security, other administrative expenses and license costs, and will be paid from the Barnwell Decommissioning Trust Fund each year beginning with Fiscal Year 2009. Reimbursement for the remainder of these costs will be included among operating costs in Chem-Nuclear's application for reimbursement filed with the Public Service Commission.

As a result of its examination, ORS identified certain adjustments to Chem-Nuclear's application that it considered necessary to conform to South Carolina Public Service Commission Rules and Regulations. These adjustments were discussed with members of Chem-Nuclear's management who agreed with their propriety. Chem-Nuclear filed an amended application dated February 26, 2009, which incorporated the aforementioned adjustments for the levels of allowable costs for the fiscal year 2008, and for identification of allowable costs for the fiscal year 2009.

Based on ORS's procedures, a summary of the amended application and a comparison of the resulting recommended allowable reimbursements to the amounts authorized by the South Carolina PSC in its Order No. 2008-447 dated June 17, 2008, was prepared by ORS Audit Staff. This summary is attached herewith as Exhibit A. As shown in this analysis, ORS recommends that Chem-Nuclear be allowed to retain, as recovery of their expenditures in operating the Barnwell Low Level Radioactive Waste Storage Facility, for the fiscal year ended June 30, 2008, as follows:

- \$7,452,850 in Fixed Costs,
- \$3,171,848 in Variable Costs and
- \$644,843 in Irregular Costs

In conjunction with the procedures described above, ORS also examined transactions recorded by Chem-Nuclear for the period beginning July 1, 2008, and extending through January 31, 2009. Based on this examination, Chem-Nuclear's Fixed and Irregular costs for the fiscal year ending June 30, 2009, appear reasonable. ORS also calculated actual Variable cost rates for the fiscal year ending June 30, 2009 as listed in Exhibit AA, which are consistent with the rates filed in the Amended Application by Chem-Nuclear.

  
Malini Gandhi, CPA  
March 13, 2009

**Chem-Nuclear Systems, LLC**  
**Operating Experience and Reimbursable Costs**  
**For the Twelve Months Ended June 30, 2008**

**Exhibit A**  
**Page 1 of 2**

	<u>Per Amended Application</u>	<u>Commission Order No. 2008-447</u>	<u>Actual Costs Over (Under) Commission Allowed</u>
<b><u>Fixed Costs</u></b>			
Labor & Fringe	\$ 2,452,543	\$ 2,900,000	\$ (447,457)
Non-labor Costs	1,087,714	1,000,000	87,714
Corporate Allocations (G&A)	1,246,765	1,305,000	(58,235)
Equipment Leases and Support	696,642	654,000	42,642
Depreciation	188,000	230,000	(42,000)
Insurance	632,003	680,000	(47,997)
Employee retention compensation	461,905	500,000	(38,095)
Legal (License Appeal)	62,361	50,000	12,361
Intangible Asset Amortization	<u>624,917</u>	<u>625,000</u>	<u>(83)</u>
<b>Total Fixed Costs</b>	<b><u>\$ 7,452,850</u></b>	<b><u>\$ 7,944,000</u></b>	<b><u>\$ (491,150)</u></b>
<b><u>Variable Costs</u></b>			
Vault Cost	\$ 1,975,945	\$ 1,777,611	\$ 198,334
Labor and Non-Labor Costs	<u>1,195,903</u>	<u>1,088,055</u>	<u>107,848</u>
<b>Total Variable Expenses</b>	<b><u>\$ 3,171,848</u></b>	<b><u>\$ 2,865,666</u></b>	<b><u>\$ 306,182</u></b>

**Chem-Nuclear Systems, LLC**  
**Operating Experience and Reimbursable Costs**  
**For the Twelve Months Ended June 30, 2008**

**Exhibit A**  
**Page 2 of 2**

	<u>Per Amended Application</u>	<u>Commission Order No. 2008-447</u>	<u>Actual Costs Over (Under) Commission Allowed</u>
<b><u>Irregular Costs</u></b>			
<b>Various Trenches (Design, Construct, and Backfill)</b>			
Labor	53,662		
Non-Labor	232,235		
<b>Total</b>	<u>\$ 285,897</u>	<u>\$ 160,000</u>	<u>\$ 125,897</u>
<b>License Renewal and Appeal Costs</b>			
Labor	3,802		
Non-Labor	1,579		
<b>Total</b>	<u>5,381</u>	<u>10,000</u>	<u>(4,619)</u>
<b>Decontamination &amp; Corrective Actions</b>			
Labor	8,569		
Non-Labor	62,112		
<b>Total</b>	<u>70,681</u>	<u>10,000</u>	<u>60,681</u>
<b>Site Engineering and Drawings Updates</b>			
Labor	15,465		
Non-Labor	9,051		
<b>Total</b>	<u>24,516</u>	<u>25,000</u>	<u>(484)</u>
<b>Site Assessments</b>			
Labor	92,621		
Non-Labor	63,819		
<b>Total</b>	<u>156,440</u>	<u>80,000</u>	<u>76,440</u>
<b>Irregular Component Disposal</b>			
Labor	(36)		
Non-Labor	3,328		
<b>Total</b>	<u>3,292</u>	<u>10,000</u>	<u>(6,708)</u>
<b>Other Irregular Costs</b>			
Labor	5,594		
Non-Labor	62,554		
<b>Total</b>	<u>68,148</u>	<u>20,000</u>	<u>48,148</u>
<b>Monitoring Well Abandonment</b>			
Labor	3,803		
Non-Labor	490		
<b>Total</b>	<u>4,293</u>	<u>-</u>	<u>4,293</u>
<b>Investigate Mary's Branch Creek</b>			
Labor	24,383		
Non-Labor	-		
<b>Total</b>	<u>24,383</u>	<u>-</u>	<u>24,383</u>
<b>Increased Security Controls</b>			
Labor	(38)		
Non-Labor	1,850		
<b>Total</b>	<u>1,812</u>	<u>-</u>	<u>1,812</u>
<b>Total Irregular Costs</b>	<u><u>\$ 644,843</u></u>	<u><u>\$ 315,000</u></u>	<u><u>\$ 329,843</u></u>

**Chem-Nuclear Systems, LLC**  
**Proposed Fixed, Irregular and Variable Costs**  
**For the Fiscal Year Ending June 30, 2009 To Date**

**Exhibit AA**

Page 1 of 2

	<u>Per Amended</u>	<u>Actual Through</u>	<u>Difference</u>
	<u>Application</u>	<u>01/31/2009</u>	
<b>FIXED COSTS</b>			
<b>Fixed Costs to which 29% operating margin is added:</b>			
Labor and Fringe and Non-Labor	\$ 1,000,000	\$ 762,104	\$ 237,896
Corporate Allocations (Management Fees/G&A)	500,000	330,253	169,747
Depreciation	188,000	170,870	17,130
Insurance	448,000	262,061	185,939
Equipment Leases and Support	400,000	205,717	194,283
<b>Total Margin Costs</b>	<u>2,536,000</u>	<u>1,731,005</u>	<u>804,995</u>

**Fixed Costs to which 29% operating margin is not added:**

Legal Support (license appeal)	<u>25,000</u>	<u>24,452</u>	<u>548</u>
<b>Total Non-margin Costs</b>	<u>25,000</u>	<u>24,452</u>	<u>548</u>
<b>Total Fixed Costs</b>	<u>\$ 2,561,000</u>	<u>\$ 1,755,457</u>	<u>\$ 805,543</u>

**IRREGULAR COSTS**

Trench Construction	\$ 40,000	\$ 37,427	\$ 2,573
License Appeal	5,000	9,311	(4,311)
Site Engineering Drawings	3,000	2,221	779
Site Assessments	30,000	1,477	28,523
Miscellaneous	1,000	-	1,000
Increased Security Controls	10,000	15,085	(5,085)
Severance Pay	300,000 **	4,484	295,516
<b>Total Irregular Costs</b>	<u>\$ 389,000</u>	<u>\$ 70,005</u>	<u>\$ 318,995</u>

\*\* Anticipated to incur in June 2009.

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**Proposed Fixed, Irregular and Variable Costs**  
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**Exhibit AA**  
**Page 2 of 2**

<b>VARIABLE RATES</b>		
	<u><b>Costs</b></u>	<u><b>Variable Factor</b></u>
<b>Variable Labor and Non-Labor Rates</b>		
Vault Purchase & Inspection	\$ <u>75.91</u>	Per Vault
A B C Waste Disposal	<u>1,818.55</u>	Per Shipment
Slit Trench Shipment	<u>6,565.38</u>	Per Offload
Customer Assistance	<u>44.45</u>	Per Shipment
Trench Records	<u>124.06</u>	Per Container
<b>Variable Material Cost Rates (Vaults)</b>		
Class A Waste	\$ <u>38.26</u>	Per Cubic Foot
Class B Waste	<u>39.65</u>	Per Cubic Foot
Class C Waste	<u>40.49</u>	Per Cubic Foot
Slit Trench Waste	<u>180.92</u>	Per Cubic Foot

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2000-366-A**

IN RE: Chem-Nuclear Systems, LLC - Application  
for Approval of Allowable Costs (1st Filing)     )  
Application for Adjustment in the Levels of     ) **CERTIFICATE OF**  
Allowable Costs and for Identification of     ) **SERVICE**  
Allowable Costs (2nd Filing and After)     )

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **EXAMINATION REPORT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

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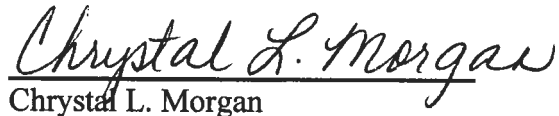
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March 13, 2009  
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